

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW AND PROSPECTS

The Group's turnover increased by approximately 37.3% to approximately HK\$125 million (2003: HK\$91 million) during the six months ended 30 September 2004 compared with the corresponding period last year. As the local retail market encountered a healthy recovery trend during the period under review, the turnover of the Hong Kong region had increased by 32.8% to HK\$93,748,000 (2003: HK\$70,599,000).

The management has pleasure to report the satisfactory performance of the Group's sales network in the PRC. The revenue of the region outside Hong Kong increased by 52.7% to approximately HK\$31,436,000 (2003: HK\$20,589,000) during the period under review. The segment revenue reached approximately 25.1% of the Group's turnover during the period after increasing gradually for the past few years.

During the period, the Group's gross profit margin was approximately 77.7%, as compared to approximately 73.8% for the corresponding period in 2003. The increase of 3.9 percentage points was mainly attributed to the stronger sales at normal prices supported by improved product quality as compared to corresponding period last year. This was enabled by the unique design and varieties of the Group's products and the build-in of valuable materials into the products.

Operating expenses for the six months ended 30 September 2004 totaled approximately HK\$68,879,000, compared to approximately HK\$58,208,000 for the same period last year with an increase of approximately 18.3%. The increase was mainly attributed by the increase in rental expenses of approximately HK\$3.5 million and staff costs of approximately HK\$2.2 million which were in line with the increase in turnover. Despite the increase in operating expenses, the operating margin was improved from approximately 10.7% of the corresponding period last year to approximately 26.9% for the period under review.

The profit attributable to shareholders for the period was approximately HK\$29.6 million (2003: HK\$9.7 million), approximately 204% higher than the corresponding period last year. The increase is mainly attributable to the increase in turnover and improvements in gross margin and operating margin.

The number of stores in the PRC remained similar to the comparative period, and there were totally 39 *MOISELLE* stores located in various cities in the PRC as at 30 September 2004 (2003: 39 *MOISELLE* and one *imaroon*). The new store locations included cities of Hainan, Qingdao, Chengdu and Changzhou. Approximately half of the stores were franchised stores and half were consignment stores. The consignment system had proved to be very effective and efficient in terms of brand building and merchandise arrangement.

Concerning Hong Kong retail market, the Group operated 21 *MOISELLE*, 9 *imaroon* and one *mademoiselle* retail outlets as at 30 September 2004 (2003: 20 *MOISELLE* and 10 *imaroon*). The new brand *mademoiselle* provides collective female apparel and accessories choices with contemporary, clean and trendy European designs to the customers. Two more new stores of *mademoiselle* have already been opened after the end of the period. These three outlets are located in tourist districts in Tsimshatsui, Causeway Bay and Central.

At 30 September 2004, the Group retained in Taiwan market five *MOISELLE* stores (2003: five *MOISELLE* and one *imaroon*), in Taipei City and Taoyuan County. The Taiwan business improved in line with the growth in the Greater China market and maintained the contribution to the Group.

The Group's development in the mainland China was satisfactory during the period. With the relaxation of governmental regulatory restrictions on foreign investments in retail industry, the management expects to increase the pace of development in the market in the coming few years.

## FINANCIAL POSITION

During the period, the Group financed its operations with internally generated cash flows. The Group adopts a prudent financial policy such that it can meet the financial obligations when they fall due and maintain a sufficient operating fund for the development of the Group's business. At the end of the financial period, the Group's aggregate fixed deposits and cash balances amounted to approximately HK\$93 million (31 March 2004: HK\$92 million). As at 30 September 2004, the Group maintained aggregate composite banking facilities of approximately HK\$53 million (31 March 2004: HK\$65 million) with various banks, of which approximately HK\$3 million (31 March 2004: HK\$2 million) was utilised.

The Group continues to enjoy healthy financial position. As at 30 September 2004, the current ratio (current assets divided by current liabilities) was approximately 5.6 times (31 March 2004: 5.8 times) and the gearing ratio (aggregate of bank borrowings and finance lease payables divided by shareholders' equity) was approximately 10.9% (31 March 2004: 17.5%).

## Charge on assets

As at 30 September 2004, investment properties and leasehold land and buildings with a carrying value of approximately HK\$61 million (31 March 2004: HK\$67 million) were pledged to secure mortgaged loans and other banking facilities granted to the Group.

## Contingent liabilities

At 30 September 2004, the Company had contingent liabilities in relation to guarantees given to banks against mortgage loans and other banking facilities extended to certain wholly owned subsidiaries amounted to approximately HK\$25 million (31 March 2004: HK\$36 million).